

MARCH 3, 2017

TO

Ed Murray, Mayor
Seattle City Council

FROM

Larry Weis, General Manager and CEO

SUBJECT

Financial Update – December 2016 (Preliminary)

This memo provides an analysis of Seattle City Light's financial condition through December 31, 2016. Retail consumption was 3.4% lower than planned, resulting in a revenue shortfall of about \$23 million. About half of the consumption difference is a result of warmer than normal weather. Wholesale revenue is also lower than budgeted due to low market prices. Due to drawdown of the Rate Stabilization Account (RSA) to supplement this revenue, a 1.5% rate surcharge is currently in effect. Surplus property sales were anticipated to improve financials and/or the RSA; however, these sales have been delayed beyond 2016.

FINANCIAL HIGHLIGHTS
December 31, 2016

\$ in millions	Year End Dec 31			Full-Year Actual vs. Plan
	2016	2015	Plan	
Retail Power Revenues ⁽¹⁾	\$ 782.9	\$ 736.6	\$ 811.2	\$ (28.3)
Surcharge Revenues	\$ 5.1	\$ -	\$ -	\$ 5.1
Wholesale Energy Sales (net) ⁽²⁾	\$ 53.2	\$ 39.2	\$ 60.0	\$ (6.8)
Power O&M (net)	\$ (269.3)	\$ (260.6)	\$ (280.4)	\$ 11.1
Non Power O&M (net) ⁽⁴⁾	\$ (258.4)	\$ (234.5)	\$ (243.0)	\$ (15.4)
RSA Transfers (net) ⁽³⁾	\$ (0.1)	\$ 23.4	\$ (1.0)	\$ 0.9
Taxes, Depreciation & Other	\$ (228.1)	\$ (213.4)	\$ (206.6)	\$ (21.5)
Net Income	\$ 85.3	\$ 90.5	\$ 140.2	\$ (54.9)
Operating Cash	\$ 72.9	\$ 152.5	\$ 140.4	\$ (67.5)
Construction Account - Restricted	\$ 28.4	\$ 88.7	\$ 63.7	\$ (35.3)
Rate Stabilization Account	\$ 91.1	\$ 91.0	\$ 92.0	\$ (0.9)
Bond Reserve	\$ 87.0	\$ 73.7	\$ 92.9	\$ (6.0)
Other Restricted Assets	\$ 15.5	\$ 11.7	\$ 13.8	\$ 1.7
Total Cash	\$ 294.9	\$ 417.6	\$ 402.9	\$ (108.0)
Debt Coverage Ratio	1.70	1.62	1.75	-0.06
Debt to Capitalization Ratio	63.5%	64.7%	63.7%	-0.2%

(1) Retail power revenues include revenues such as power factor charges.

(2) Revenue from wholesale sales, before booked out long term purchases.

(3) Transfers from the RSA less transfers to the RSA.

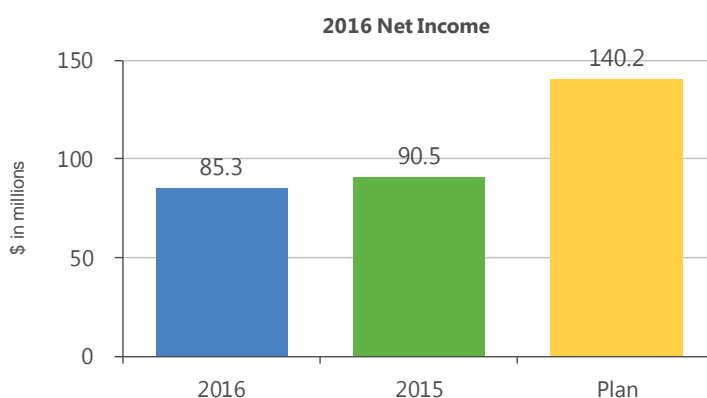
(4) Includes a \$15.5 million non-cash expense related to the December annual actuarial pension liability adjustment.

YEAR-END NET INCOME, RELATIVE TO 2015

As indicated in the table on the previous page and in the charts below, net income for the period ending December 31, 2016 was \$85.3 million, which is \$5.2 million or 5.7% unfavorable compared to the same time period in 2015. The unfavorable variance was primarily due to a \$23.8 million increase in non-power O&M driven by the annual actuarial pension liability adjustment (\$15.5 million) as well as the retroactive 2015 COLA mandated by new labor agreements. The unfavorable variances were partially offset by an increase in retail power revenues due to the 4.9% system average rate increase effective January 1, 2016.

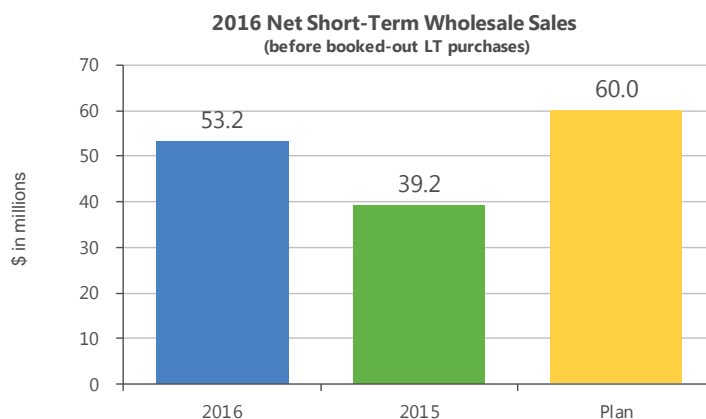
YEAR-END NET INCOME, RELATIVE TO PLAN

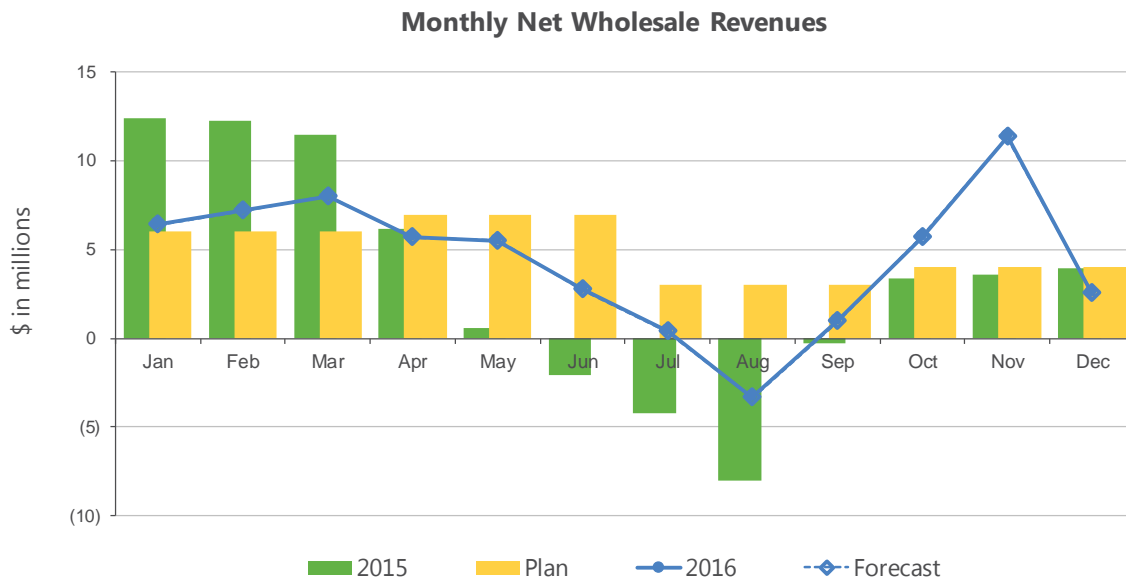
2016 net income is \$85.3 million, which is \$54.9 million, or 39% unfavorable compared to the 2016 Financial Plan of \$140.2 million. The primary drivers of the unfavorable variance include the shortfall in retail power revenue driven by above normal temperatures, the delayed sale of the 8th and Roy Street property from 2016 to 2017 and a \$15.5 million increase in the pension liability required under GASB 68, *Accounting and Financial Reporting for Pensions*.



NET SHORT-TERM WHOLESALE ENERGY

2016 net wholesale revenue of \$53.2 million increased \$14.0 million or 36% from 2015 due primarily to improved 2016 hydro conditions. It was \$6.8 million or 11% below the 2016 Plan of \$60 million. Compared to the average of the past five years 2016 hydro generation is expected to be around 98% and 2016 market prices are expected to be around 74%.

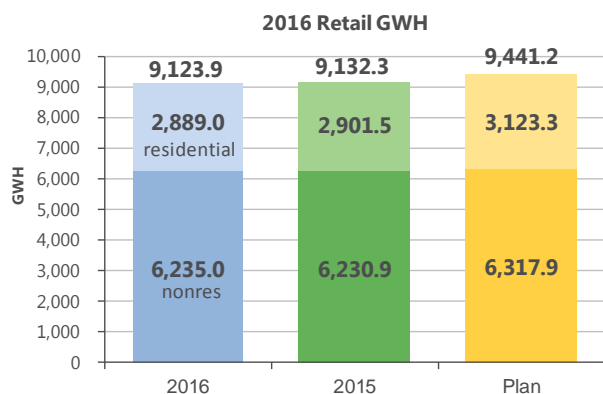




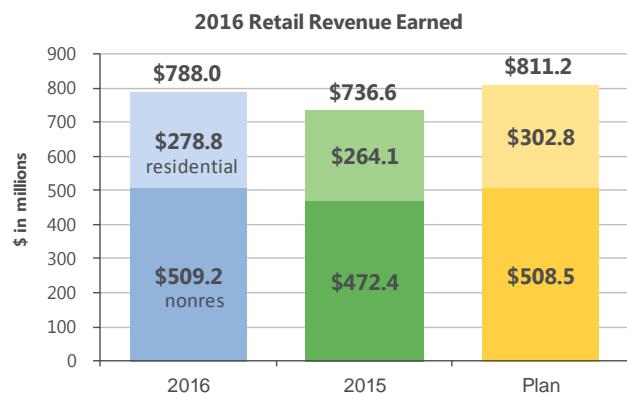
RETAIL POWER REVENUES

2016 total retail sales were lower than planned by 317 GWh, or 3.4%. Excluding the impact of above average temperatures in 2016 (less heating load), total load variance to Plan would have been unfavorable by only 161 GWh, or 1.7%. The weather similarly impacted year-to-date retail revenue, which was lower than planned by \$23.2 million, or 2.9%.

2016 total retail sales were lower than the prior year by only 8 GWh, or 0.1%. 2016 retail revenue was higher than the prior year by \$51.4 million or 7.0% due to a combination of the 4.9% system average rate increase effective January 1, 2016 and the 1% BPA pass-through charge effective October 1, 2015.

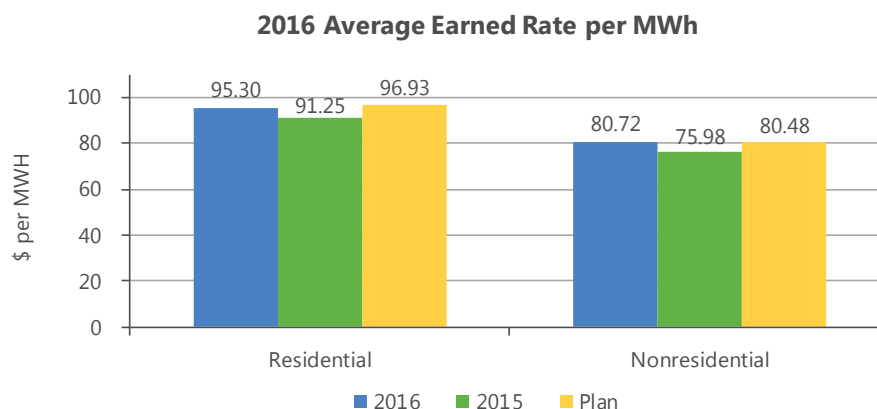


2016 Retail GWH			
	Nonresidential	Residential	Total
2016 vs. 2015	0.1%	-0.4%	-0.1%
2016 vs. Plan	-1.3%	-7.5%	-3.4%



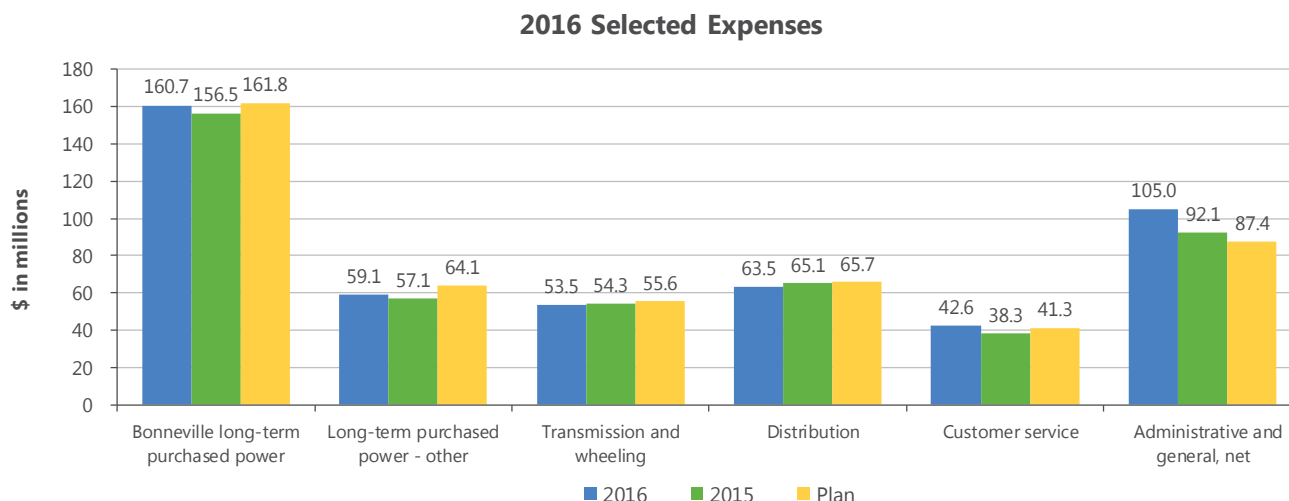
2016 Retail Revenue			
	Nonresidential	Residential	Total
2016 vs. 2015	7.8%	5.6%	7.0%
2016 vs. Plan	0.1%	-7.9%	-2.9%

The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2016 Plan due to slight differences in assumed versus actual patterns of consumption.



DATA FOR SELECTED ACCOUNTS

The following chart presents full-year 2016 data for major components of City Light's operating expenses excluding wholesale power transactions. These expenses can fluctuate month to month compared to the previous year for a number of reasons including work scheduling and accounting adjustments. Major or noteworthy differences from 2015 are detailed below.

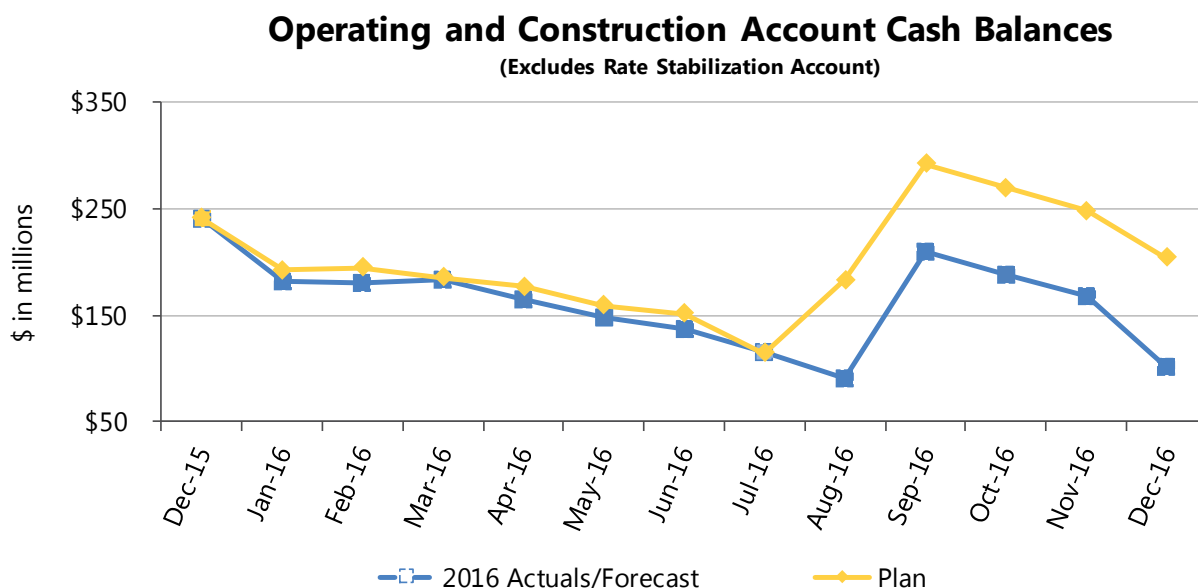


- Bonneville expenses: The \$4.2 million unfavorable year-over-year variance was due to an increase in BPA costs (primarily Slice) driven by a rate increase effective October 1, 2015.
- Long-term purchased power: The \$2.0 million unfavorable year-over-year variance was due primarily to an increase in Stateline Wind generation, which is weather dependent.
- Transmission and wheeling: The \$0.8 million favorable year-over-year variance was driven by a decline in tree clearing expenses as well as lower expenses related to the non-recurrence of the 2015 Goodell Creek fire. The favorable variances were partially offset by the increase in BPA wheeling costs due to the October 1, 2015 rate increase.

- Distribution costs: The \$1.6 million favorable year-over-year variance was due to decreases in both overhead and underground system expenses; partially offset by increases in salary costs (including for COLA and related overhead) and costs associated with service work on customer premises.
- Customer service expenses: The \$4.3 million unfavorable year-over-year variance was driven by an increase in total bad debt expense of \$3.5 million due in large part to clean-up of older accounts in arrears as part of the new system conversion. Additional increases were for billing and collection due to salary and COLA adjustments; and Seattle IT expenses for the next generation data center. Increases were partially offset by a decline in customer assistance costs.
- Administrative and general expenses: The \$12.9 million unfavorable year-over-year variance was driven primarily by the annual actuarial pension liability adjustment (\$15.5 million), the retroactive 2015 COLA mandated by new labor agreements and an increase in estimated injury and damage claims. These were partially offset by a net increase in pension and benefits overhead applied due to the March 2016 retro pay.

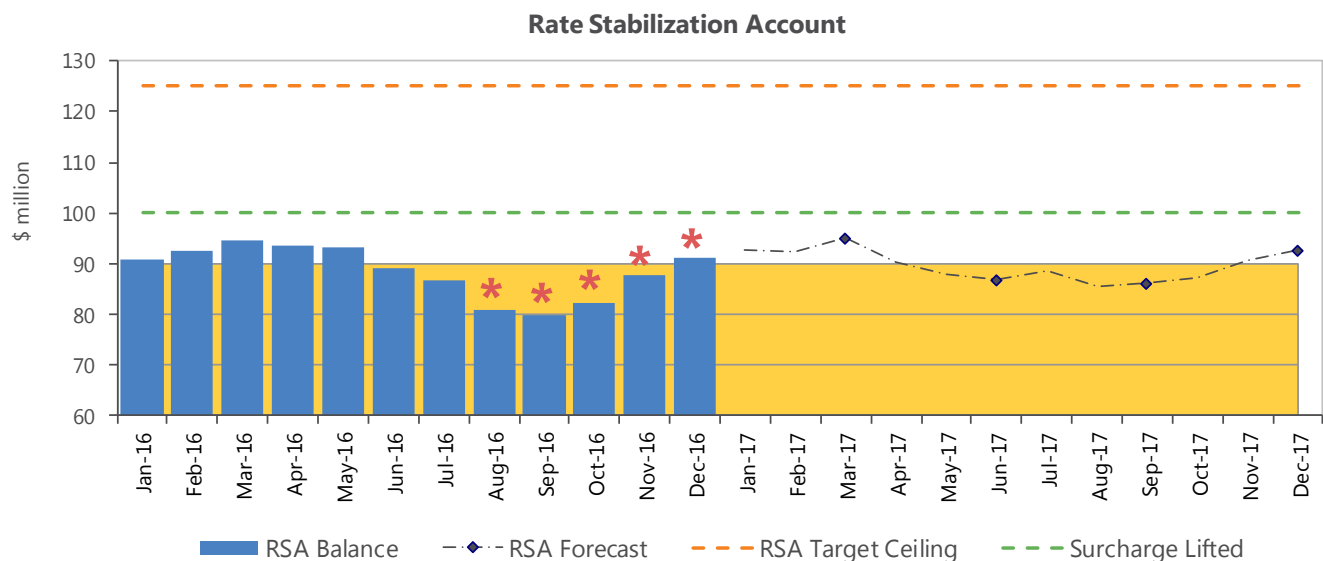
CASH POSITION

As of December 31, 2016, City Light's operating plus construction account cash balance was \$101.2 million, which is \$102.9 million or 50% below the 2016 Financial Plan of \$204.1 million. A \$148 million fixed rate bond issue closed in September. The \$100 million variable rate debt issue originally planned for August closed in January 2017.



RATE STABILIZATION ACCOUNT POSITION

As of December 31, 2016, the cash balance in the rate stabilization account was \$91.1 million, which is \$8.9 million or 8.9% under the \$100 million RSA target. The drop in balance below the \$90 million surcharge trigger level in June resulted in an automatic implementation of a 1.5% surcharge effective August 1, 2016. The 1.5% RSA surcharge will be removed when the RSA balance is over \$100 million at the end of a fiscal quarter.



* 1.5% surcharge

2016 BUDGET

As of December 2016, City Light was within its overall budget authority through year-end 2016. The Department spent 94% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through year-end. City Light was within the legal spending authority for all Budget Control Levels and there were no year-end budget exceptions. The CIP accomplishment rate was approximately 89% through year-end 2016 after adjustments for lifetime capital projects.

DEBT-TO-CAPITALIZATION

As of December 31, 2016, City Light's debt-to-capitalization ratio was 63.5%, a decrease from 64.7% reported at December 31, 2015 and just slightly lower than the 2016 Plan of 63.7%.

COMPLIANCE

Attached for your information is the City Light Risk Oversight Status Report as of February 15, 2017, which conveys City Light's compliance with risk policies and standards at that point in time.

PERFORMANCE METRICS

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for December 31, 2016, with 2015 data included for comparison, is attached.

Attachments

cc: Mickey Bannister-Mingo
Kate Joncas
Tony Kilduff
Hyeok Kim
Ben Noble
Fred Podesta
Saroja Reddy
Greg Shiring
Brian Surratt
Michael Van Dyck